



# **Finding Room: Options for a Canadian Rental Housing Strategy**

## **Chapter 19**

### **A Wake-Up Call for Non-Profit Housing Providers**

**by Jon Harstone**

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## Chapter 19

# A Wake-Up Call for Non-Profit Housing Providers

JON HARSTONE,  
GANESH COMMUNITY DEVELOPMENT CO-OP

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It's self-evident that the only way that decent affordable housing can be built is to use some kind of government subsidy or grant program. This isn't new information. Ontario's first social housing legislation, the *Hanna Act*, was passed in 1913 and was used to finance the development several projects, including Riverdale Courts, now Bain Housing Co-op. Many of the problems we are seeing go back even farther – to the Great Fire of 1901. The city put in place a new fire code that made it nearly impossible to build affordable housing in the city.

Most of the solutions being suggested are technical in nature. I want to discuss the attitude of the non-profit housing sector. If we are going to develop permanent affordable housing, we have to involve the non-profit sector. The private sector has a different agenda. I'd like to figure out how we can get the non-profits to do more.

Although lack of money is the biggest obstacle, there is also a problem with the expectations of the non-profit housing providers. And unless this changes, non-profits are not going to be part of the solution. This paper addresses some of the changes in the non-profit housing provider's mindset that are needed to develop housing at \$523.67 a month.

Non-profit groups have been spoiled by 30 years of 100 percent government funding. They were spoon-fed money. And it fostered a certain mindset. "We don't need to talk to the community. We don't need to talk to the unions or the churches. All the money is coming from the government. Problems with NIMBYism? We'll just hire a big a big-name OMB lawyer from McCarthy Tétrault. We've got a whole slew of them. We can wipe out anybody, because we've got all this money."

Today, these groups can't imagine developing housing unless they have 100 percent financing. They see the housing crisis as the government's problem and responsibility. They think the government should give them the money to fix it, just as they did in the good old days. This is rear-view mirror vision. Too many non-profit groups are talking about how things were so much better in the past that they have no idea where things are now or where non-profit housing is going. As a consultant to non-profits, I find it difficult to work with some of these groups.

One quick example to prove the point. Most non-profit groups I've met with consider getting an appraisal to be a waste of time and money. No wonder their projects never get off the ground. Well, I'm sorry. Under the new realities, if you don't have an appraisal, you're not even at the starting gate. Yet they don't understand that. The task of educating the non-profits is vast.

In retrospect, the wonderful government programs that provided 100 percent financing may have done more harm than good when it comes to developing an infrastructure that enables the ongoing development of affordable housing. Although the programs created lots of units, there was no lasting legacy in the capacity of the sector. Everything was focused on the government.

The government programs also stripped away all the equity. When a 35-year mortgage reached the end of 35 years, the attitude was, "Hey, let's refinance the whole building." You never got a stream of payments that you could use to do more asset development.

Here's a story that highlights the problem: A colleague recently attended a board meeting for a project funded by the City. The board recognized that the project's expenses would be higher than they had originally budgeted. The project wasn't viable. Instead of trying to find a solution, the board decided that if they ran into trouble they would give the building back to the City. It was City's project after all! The group seems to believe that they were doing the City a favour when they sponsored the project.

What blows me away is that the group didn't think the project was worth fighting for. The board members didn't feel any ownership about this money. It wasn't an investment.

Our communities need to realize that they're investing in the housing. The city now asks for about \$5,000 per unit as a contribution. This particular group raised over \$200,000, but they were willing to walk away from the project because they didn't think about it as an investment. They didn't own the project; the city did. We've got to change this atti-



tude. We have to change things so that the group gets a benefit. We can't let the government strip away the assets; we've got to ensure that the groups get some benefits. There's a completely different attitude in the United States. Non-profit boards in Canada don't think about growing assets. They don't think of what they're doing as accumulating assets, because they're not supposed to think that way.

When I work with groups, I try to get them to think differently. I talk about the organization having to invest in the project and tell them that they should expect a return on their investment. Thinking about equity as an investment changes the way the board thinks about who owns the project and who ultimately benefits from the project.

I try to get boards to think about asset growth, and how to use their own assets to grow the organization. I think we need to look at intensifying existing social housing projects to get more housing built.

One group in Toronto developed a social housing project but the provincial government took them down because they used their reserve fund. You weren't allowed to use your reserve fund for development, so the province put them into receivership because they were in violation of their agreement and then handed over the new building and the old building to the Toronto Housing Company. So much for trying to be creative about how we do housing. I mean if the response for being creative is you get taken down, no one's going to do it.

Many of the groups I work with complain about the amount of government oversight. They've never dealt with a private lender; they have no idea what oversight is. They don't understand that it's a matter of balancing risks. When the government provided 100 percent of the money, they also bailed out projects that ran into difficulty. The government has the right to interfere with a project's operations if it minimizes the government's risk. I am concerned that the City is going to continue to bail projects out. Doing so will encourage groups not to take responsibility for their projects.

I went to a meeting recently at which the group worked with a development consultant. The consultant advised them to lowball their bid to the city for a new program. The reasoning was: get the city on the hook, then we can increase the funding just as in the old days when we got loan increases. There's no responsibility for coming in with a financially appropriate business plan and making a proper project proposal. This is a legacy of 30 years of government spoon-feeding.

In order to be meaningful players, non-profit boards have to take more responsibility, more ownership of the projects. I am not suggest-

ing that boards should be more entrepreneurial or business-like. These are often code words for bad business decisions. Rather, I think non-profits have an obligation and responsibility to do value-driven development. I'm not sure how to accomplish this; part of me thinks that doing something like getting directors to sign personal guarantees is needed. However, the government has to do its part and stop being so paternalistic. Both parties need to change the way the partnership is structured.

Many of you know about the project that St. Clare's Multifaith Housing Society developed at 25 Leonard Avenue, across the street from Toronto Western Hospital. It's a four-storey concrete building which we converted into 50 units of transitional housing using \$2.25 million of SCPI funding. The building has been occupied for 18 months. We located that building before SCPI was even announced. Most other non-profit groups wait for the government to put a proposal call before they start looking for projects.

We are planning to add two floors, with 27 single room occupancy units, to the building. The units will be small; only 210 ft<sup>2</sup>, and we are planning to use a manufactured housing system to save money and time. We will be submitting an application to City's Let's Build proposal call on June 16. The Committee of Adjustment is considering our application for minor variances on July 9. We decided to submit this proposal. If there is no Ontario Municipal Board appeal, the units will be occupied within nine months.

The capital costs of the project are about \$65,000 per unit. If the City grants our request to waive the municipal taxes and provides a capital grant/loan of \$40,000 per unit, we will be able to rent all the units for the shelter component of Ontario Works (\$325 a month). This means that people currently living in shelters can move into the building without needing a rent supplement.

Some of you will see that there is a problem with my math – \$325 a month is enough to cover the operating expenses, but it won't cover the payments of a \$25,000 per unit mortgage. We intend to refinance the entire building. Originally we had five years of rent supplements. In the last budget, the provincial government agreed to extend the rent supplements until 2023. We can add \$600,000 to the mortgage, and maintain the current payment by lengthening the amortization.

What I'm trying to do is intensify the use of the building, by using our own assets to grow the organization and accomplish socially responsible development – value-driven development. This isn't rocket

science, but it is affordable housing and it does meet Michael Shapcott's number criteria. Yes we're using a government grant, but not too much. Not as much as some organizations. St. Clare's is intensifying the use of its own properties, and will bootstrap the project using the equity it has in the building.

The question we should ask is "Why aren't there more projects like this one on the drawing boards that are going into the government for approval under this latest proposal call?"

*Jon Harstone is the president of Ganesh Community Development Co-operative, a non-profit consulting firm that assists community groups develop and manage affordable and supportive housing. Over the past 30 years Mr. Harstone has worked for several non-profit housing organizations, including Homestarts, Colandco Land Trust, and the Co-operative Housing Federation of Toronto. Among his recent projects is the conversion of 25 Leonard Ave. into 50 units of transitional housing for St. Clare's Multifaith Housing Society, and the conversion of two unused elevator shafts into 16 apartments at 81 Dalhousie St. for Margaret Laurence Housing Co-op. Mr. Harstone is an honorary Lifetime Associate of the Co-operative Housing Federation of Canada, and he chaired the Development Committee of the Co-operative Housing Federation of Toronto for more than 10 years. Mr. Harstone is an architectural historian who served for nine years on the board of Heritage Toronto, and is the former chair of the Toronto Local Architectural Conservancy Advisory Committee (LACAC).*